

AGENDA: March 16, 2004

5.1

CATEGORY: Public Hearing

DEPT.: Community Development

TITLE: Fiscal Year 2004-05 CDBG/HOME
Programs and General Fund Support of
Nonprofit Agencies

RECOMMENDATION

That the City Council:

1. Hear brief (3 minutes maximum per program) presentations from each of the outside agencies requesting funding as well as any comments from the public.
2. Provide staff with direction regarding the issue of using CDBG funds for park projects and whether staff should continue to work on developing one or more funding applications for park projects, including initiating the process of amending the Consolidated Plan.
3. Provide staff with direction regarding any additional material to be provided or questions to be addressed in order for Council to make funding decisions on April 27.

FISCAL IMPACT

The CDBG and HOME Programs are Federal funds which will be allocated to eligible community service agencies and capital projects. There is no fiscal impact to the City's General Fund from allocating this money.

Historically, the City has also allocated General Fund support to a number of outside agencies. The fiscal impact of this action will depend on the level of funding the Council wishes to appropriate. Currently, \$149,759 in General Fund support is provided to outside agencies.

BACKGROUND AND ANALYSIS

The purpose of the March 16 public hearing is for the Council to hear brief (3 minutes maximum) presentations regarding each of the outside agency funding requests. In addition, staff is requesting Council input on the issue of using CDBG funds for park projects and whether staff should continue to work on developing one or more park funding applications. If the Council would like to pursue park funding, this will require initiating an amendment to the City's Consolidated Plan. The March 16 public hearing is also an opportunity for

Council to provide feedback to staff and the agencies regarding any additional information or material needed in order to make funding decisions at the April 27 hearing.

Application Process

Funding applications became available December 10, 2003 and were due January 23, 2004. Applications were mailed to a list of about 50 nonprofit organizations and other groups who have expressed an interest in the CDBG/HOME Programs or in General Fund support. Twenty funding requests have been submitted.

The funding process has been structured to comply with the procedures adopted by the City Council on November 19, 2002 (Attachment 1 provides minutes of this meeting). These procedures were implemented for the first time last year and involved changing the funding process in order to hear the agency presentations at the first hearing instead of the second hearing, earmarking 5 percent of the CDBG and General Fund public service budgets for funding new agencies, eliminating the \$5,000 minimum grant amount for public services and sending the agencies a letter to provide a realistic understanding of the available funding.

Available CDBG/HOME Funds

For Fiscal Year 2004-05, the City will have an available budget of \$1,314,333, consisting of \$834,000 in CDBG funds and \$480,333 in HOME funds. The City's CDBG entitlement of \$834,000 is 2.7 percent less than the Fiscal Year 2003-04 entitlement grant of \$857,000. The HOME entitlement of \$480,333 is just slightly more (by \$353) than the Fiscal Year 2003-04 entitlement of \$479,980.

During Fiscal Year 2003-04, the City has received a large amount (\$136,000) of program income from loan repayments. This program income has resulted in a 13 percent increase in the available CDBG budget for public services, even though the CDBG grant amount is 2.7 percent less than last year. The public service budget consists of 15 percent of the CDBG grant amount and the program income received in the preceding year.

CDBG funds may be used for housing rehabilitation or acquisition activities, public services or community development projects. HOME funds may only be used for certain affordable housing activities. In addition, under HOME, 15 percent of the HOME funds must be used to fund a Community Housing Development Organization (CHDO), a type of nonprofit organization that meets certain criteria, including that one-third of the Board of Directors is made up of low-income residents.

Federal regulations also specify the amount of funding that may be used for program administration and management. For Fiscal Year 2004-05, the City will have \$166,800 in

CDBG funds and \$48,000 in HOME funds available for program administration and management, which is about 2 percent less than the amount currently allocated for administration of the CDBG and HOME Programs. The amount of funding available for program administration has been declining for many years now, as the City's CDBG grant amount continues to be reduced. For example, between Fiscal Years 1995 and 2004, the City's CDBG grant has been reduced by 9.8 percent. During this same time, there have been numerous new Federal requirements for the use of the CDBG funds (i.e., lead-based paint abatement, collection of new race data, development of a performance measurement system, timely expenditure requirements, increased fair housing requirements, etc.) which have greatly increased the administrative costs of the program. If this trend continues, it may be necessary, in the future, to supplement the CDBG funds with other housing funds to help cover program expenses.

Fair Housing Services

Federal regulations specify that the City must "affirmatively further fair housing" in order to be eligible to receive CDBG and HOME funds. The City must report to HUD each year on the activities that have been undertaken to comply with this requirement. Funding of a fair housing agency to provide fair housing services (i.e., investigate fair housing complaints, provide information and referral services and carry out outreach activities to educate the community about fair housing rights and responsibilities) is necessary in order for the City to comply with the requirement to affirmatively further fair housing.

Since all CDBG-funded jurisdictions must comply with the same requirement to provide fair housing services, last year the Cities of Mountain View, Palo Alto and Sunnyvale carried out a joint Request for Proposals (RFP) process in hopes of finding a single fair housing service provider for services in North Santa Clara County. Providing services on a regional basis allows for cost savings by not duplicating services or overhead costs and is also consistent with the recommendations of a County-wide fair housing study completed in January 2003.

Project Sentinel was selected last year by the City Councils of all three cities. Both Palo Alto and Sunnyvale are on two-year funding cycles and will not be repeating the RFP process this year, but will be renewing their contract with Project Sentinel. Project Sentinel has been performing well and meeting all the obligations of their contract with the City. Project Sentinel has agreed to continue to provide fair housing services for Fiscal Year 2004-05 for the same contract amount (\$20,000 for Mountain View), even though the workload has been much higher than originally anticipated.

Since Project Sentinel has been performing well and since both Palo Alto and Sunnyvale will be renewing their contracts, it is recommended that Mountain View renew its contract with Project Sentinel rather than carrying out a new Request for Proposals process this year.

Continuing the existing contract would allow the City to continue to benefit from the cost savings of providing fair housing services on a regional basis. If, however, the City Council would prefer that staff carry out an RFP process for fair housing services, staff could start the process in April and return to Council in late June for award of the fair housing contract. The funding for the fair housing contract would need to be allocated at the April 27 meeting and the service provider could then be selected in June.

Funding Requests

The funding requests have been grouped into three categories: (1) CDBG funded public services; (2) General Fund public services; and (3) CDBG/HOME capital projects. A staff summary of the requests is attached. Also, a chart is provided for each of the three categories of projects, comparing the projects against each other based on the City's assessment factors. Historically, 12 assessment factors have been used to review the outside agency funding requests (Attachment 2 lists the assessment factors). The full agency funding applications have been forwarded to Council in a binder along with this staff report and are also available for public review in the Community Development Department and the City Clerk's Office.

Per Council direction, staff recommendations are not provided regarding the CDBG or General Fund public service programs. The staff CDBG Committee (consisting of the Assistant City Manager, Public Works Director, Finance and Administrative Services Director and Community Development Director) typically makes recommendations on the capital projects. This year, in an effort to better evaluate the projects, the Committee will be making its recommendations after the March 16, 2004 hearing in order to have an opportunity to consider the agency presentations and Council input. The CDBG Committee recommendations will be provided for the April 27 meeting.

1. CDBG Public Services (Reference Table 1 and Attachment 3)

Currently, there are 10 public service programs funded for a total of \$128,550. For Fiscal Year 2004-05, these same 10 programs are requesting \$140,111 in funding (9 percent increase) and there is an available budget of \$145,500 (\$125,100 from the 2004-05 grant amount and \$20,400 from program income). This year there are no eligible new funding requests for CDBG public service funds. This is a highly unusual situation of having more CDBG public service funds available than there are funding requests and is due to the large amount of program income received during Fiscal Year 2003-04.

Program income tends to fluctuate significantly from year to year. Therefore, if Council allocates the full public service budget, it may be necessary next year to make significant budget cuts if the City receives less income. Council may, therefore, wish to

keep the public service budget at about \$130,000 in order to avoid having to make cuts in the future.

Whatever funds are not used for public services can be used for Fiscal Year 2004-05 capital projects or future capital projects. The funds cannot, however, be carried forward for future public service projects.

2. General Fund Requests (Reference Table 2 and Attachment 4)

Historically, requests for General Fund support have been handled simultaneously with the CDBG and HOME funding requests. Currently, nine programs are funded for ongoing operating support for a total of \$143,759. The total General Fund budget is \$149,759, which includes funding for Midpeninsula YWCA, which has gone out of business. A total of \$170,563 in funding is being requested for Fiscal Year 2004-05, which includes two new funding requests.

At the November 19, 2002 Council meeting, it was requested that 5 percent of the CDBG and General Fund public service budgets be earmarked for funding new agencies that have not been funded in the last three years. Council did note, however, that they would maintain discretion to award all the available funding to existing programs. Five percent of the current General Fund budget amounts to \$7,488 and would be earmarked for new agencies not funded in the past three years. This would leave \$142,271 for funding existing programs. The existing programs are requesting \$149,306 in funding. Two new agencies are applying for funding in Fiscal Year 2004-05, the Health Trust and Rebuilding Together, for a combined amount of \$21,257.

The preliminary staff recommendation is to maintain the General Fund budget at \$150,000, consistent with the existing funding level. However, as part of the budget process, the City Council could increase or decrease this budget. General Fund budget decisions will be made during the City's Fiscal Year 2004-05 budget adoption.

The two new funding requests do not qualify for CDBG funding. To be eligible for CDBG funding, a program must serve at least 51 percent low-income persons. The Health Trust is requesting funding to provide home-delivered hot meals to homebound Mountain View residents. The program as a whole serves less than 51 percent low-income persons; therefore, it is not eligible for CDBG funding. Rebuilding Together is requesting funding for the cost of material and discounted labor expenses as well as indirect volunteer costs associated with the rehabilitation of Mountain View homes on National Rebuilding Day. Use of CDBG funds would necessitate complying with a number of Federal rules that would make it prohibitive for the agency to use the funds, especially in light of the small amount of funding (\$6,000) being requested. For

example, three price quotes would need to be obtained for each purchase of materials and would have to be submitted to the City prior to making a purchase. Each property to be rehabilitated would have to go through the Federal environmental review process, any contractors to be used for the work would have to be checked against Federal disbarred lists and if any health or safety code violations are detected on the property, they would have to be corrected as part of the rehabilitation work.

3. CDBG/HOME Capital Projects (Reference Table 3 and Attachment 5)

\$521,700 in CDBG and \$432,333 in HOME funds will be available for funding capital projects.

a. Requests for CDBG Funds:

Two projects have been submitted for CDBG funds: (1) Charities Housing is requesting \$255,000 of CDBG funds for the rehabilitation of the Sierra Vista I Apartments. This is the same funding request which the Council considered at the mid-year budget hearing on November 18, 2003; and (2) Economic and Social Opportunities is requesting \$30,000 for the ongoing operation of the City's home repair program, which assists low-income homeowners to maintain their homes. The combined amount of these two funding requests is \$285,000, which would leave \$236,700 in unbudgeted CDBG funds. Having some unbudgeted CDBG funds will not be a problem in terms of meeting Federal timely expenditure requirements. The rehabilitation work at the Central Park Apartments, which Council funded during the mid-year budget hearing (November 18, 2003), will be using a significant portion of the City's existing CDBG budget and will enable the City to comply with next year's expenditure requirements.

b. Request for HOME Funds:

The efficiency studios project, which is scheduled to begin construction in July 2004, has run out of CDBG-eligible project expenses and Charities Housing is requesting that \$16,094 of unused CDBG funds allocated to the efficiency studios project be substituted with HOME funds. This is not a new funding request but simply changes the type of funds allocated. The benefit of making this substitution is that the HOME funds can be used for construction expenses. Last year Council authorized the substitution of \$133,729 of CDBG funds with HOME funds; however, there were not enough HOME funds available at the time to substitute for all of the unused CDBG funds. The \$16,094 will be the last portion of CDBG funds that needs to be substituted with HOME funds. If Council approves this

substitution of funds, the available CDBG budget will increase from \$521,700 to \$537,794.

There are no other eligible HOME projects this year. The unbudgeted HOME funds would be carried forward to next fiscal year. Unlike CDBG, the HOME Program allows two years for the funds to be allocated and five years to spend the funds.

Mid-Peninsula Housing Coalition submitted a funding request for \$360,000 in HOME funds for predevelopment costs for about 80 additional affordable senior housing units to be built on the Central Park Apartments (90 Sierra Vista Avenue) property. At this time, this funding request does not appear to be eligible for HOME or CDBG funds and has not been included for Council consideration. Because HOME funds were used for the original acquisition of the Central Park Apartments, HUD rules specify that HOME funds cannot be used again for that property. CDBG funds cannot be used for predevelopment activities associated with new housing construction.

Potential Park Projects

At the November 18, 2003 mid-year budget hearing, Council directed staff to return with options for possible park projects in eligible areas of the City (Attachment 6 provides the meeting minutes). In order for a park project to be eligible for CDBG funds, the park service area must contain a minimum of 38.2 percent low-income residents. Staff has calculated the percentage of low-income residents within the service areas of the Castro School, Devonshire, Klein, Whisman and Sierra Vista Park sites. As shown below, the Devonshire and Klein Park service areas are the only two areas with the required percentage of low-income persons to qualify for CDBG funds.

<u>Park Site</u>	<u>% Low Income</u>
Klein	44.2%
Devonshire	39.6%
Castro School	35.9%
Sierra Vista	34.6%
Whisman	30.0%

The Devonshire and Klein Park projects and initial cost estimates are described below. Devonshire would involve development of a new park, and Klein involves playground and safety improvements to an existing park. The Klein Park improvements could be carried out within the upcoming fiscal year without impacting other capital projects and would allow the Council the option to also fund some housing projects. The creation of a new park at the Devonshire site poses some additional issues. Due to CDBG expenditure requirements, the

project would need to get under way during Fiscal Year 2004-05 so that the necessary CDBG funds can be spent out. This may involve the displacement of other scheduled CIP projects. The creation of a new park will have long-term maintenance and operation costs which have not been budgeted for. Finally, development of the Devonshire Park could involve the use of about \$1,244,000 in CDBG funds (if both 62 and 66 Devonshire Avenue are developed). This would preclude the use of CDBG funds for housing this year, which would be a major shift in policy since, up to now, the CDBG funds have been used exclusively for housing projects. At the March 16 meeting, the City Council is being asked to indicate if staff should continue to work on developing an application for funding one or both of the eligible park sites for Council to consider at the April 27 meeting.

Klein Park Playground

As a result of a City-wide playground safety and accessibility audit performed in 1999-2000, a multi-year program to bring all City playgrounds up to standard was developed. The project at Klein Park would include removal of the existing play equipment and replacement with one to two composite play structures for 2- to 5-year-olds and 5- to 12-year olds at an estimated cost of \$140,000. Specific equipment components; i.e., swings and slides, etc., have not been identified and would depend on input from the local neighborhood. The project would also include installation of new poured-in-place rubberized material and could be completed within the Fiscal Year 2004-05 time frame.

62 Devonshire Avenue

In October 1997, the City Council authorized the purchase of a half-acre (21,580 square feet) site at 62 Devonshire Avenue (Whisman Planning Area) for use as future open space. The area surrounding the site (Tyrella-Evandale neighborhood) had been previously identified as deficient in open space as part of the 1994-95 Council-adopted Parks and Open Space Plan. The current project also includes an allowance for the purchase and development of the adjacent property (which fronts a portion of 62 Devonshire Avenue) located at 66 Devonshire Avenue. Acquisition of this property would increase the size of the park from roughly one-half acre (21,580 square feet) to nine-tenths acre (39,760 square feet). Were a park to be constructed only on the currently owned site (62 Devonshire Avenue), the estimated cost would be \$797,000. Were the adjacent site (66 Devonshire Avenue) to be acquired and developed simultaneously, the estimated cost would be approximately \$1,800,000. Recreation in-lieu funds in the amount of \$556,000 have been designated for this project by Council to date. If selected, the project would take approximately 18 to 24 months to design and construct and could potentially delay and/or postpone other capital projects scheduled for Fiscal Year 2004-05.

Perhaps most important, long-term funding for maintenance and operation of a mini-park at this location has not been identified. Given the uncertainty surrounding the upcoming Fiscal Year 2004-05 budget, along with recent reductions in park staffing levels, a new park at this location could not be absorbed with existing resources without reducing service levels at other parks.

Amendment of the Consolidated Plan

The use of CDBG funds for parks would necessitate amending the City's Consolidated Plan. The Consolidated Plan is the five-year planning document that identifies the community needs and describes how CDBG and HOME funds will be used to address the identified needs. The current Consolidated Plan focuses on affordable housing as the community's primary need. The Consolidated Plan would need to be amended to also identify parks in low-income neighborhoods as a priority need. This would represent a policy shift from using CDBG exclusively for housing to using CDBG for housing and park projects. Depending on Council input at the March 16 meeting, the process for amending the Consolidated Plan would be initiated following the meeting, so that the required 30-day public review of the amendments could begin on March 26 and conclude at the April 27 funding hearing.

Human Relations Commission Role

As requested by Council, the Human Relations Commission (HRC) for the first time last year began providing an annual report on community trends, needs and priorities for the City Council to consider during the annual CDBG/HOME funding process. This year, as noted in the January 20, 2004 memo to the City Council (Attachment 7), the HRC decided to carry out additional outreach and dedicated a significant portion of their March 4 meeting to soliciting input from the public regarding community needs, trends and priorities. The memo from the HRC will be included for Council consideration in the April 27 staff report.

Action Plan

The City's application to HUD (Action Plan) for Fiscal Year 2004-05 funds is due May 14. As required by HUD, a draft of this application will be circulated for public comments beginning March 26 and the 30-day public review will conclude with the April 27 public hearing. This document will be included in the April 27 staff report and will be modified per Council action at the April 27 meeting, prior to being submitted to HUD.

SUMMARY

Council is not being asked to make any funding decisions at the March 16 meeting. Funding decisions will be made at the April 27 meeting. The purpose of the March 16 meeting is for Council to hear from the agencies requesting funding and indicate if there is any additional material staff or the agencies should provide in preparation for the April 27 meeting. The Council is also being asked to indicate if staff should continue to work on an application(s) for funding one or more park projects.

For Fiscal Year 2004-05, the City will have \$834,000 in CDBG funds and \$480,333 in HOME funds. There will be \$145,500 in CDBG funds available for public services, representing a 13 percent increase from the \$128,550 current budget, due to the receipt of a large amount of program income. A total of \$140,111 in CDBG public service funds is being requested. There will be \$521,700 in CDBG funds available for capital projects and the outside agency requests total \$285,000 (and could total over \$1 million if City park projects are included). There will be \$432,333 in HOME funds available for capital projects and \$16,094 in HOME funds is requested to be substituted for unused CDBG funds allocated to the efficiency studios project. In addition, \$149,759 in ongoing General Fund operating support is currently being provided to outside agencies and \$170,563 is being requested for Fiscal Year 2004-05.

PUBLIC NOTICING

Agenda posting; legal notice in newspaper; mailing to list of interested persons/agencies.

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- Attachments:
1. Minutes of City Council Meeting, November 19, 2002
 2. Assessment Factors
 3. CDBG Public Service Programs
 4. General Fund Requests
 5. CDBG/HOME Capital Projects
 6. Minutes of City Council Meeting, November 18, 2003
 7. Human Relations Commission's January 20, 2004 Memo